

Willroy Mines Limited

File

Annual Report

For the year ended December 31, 1976

OFFICERS

P. A. ALLEN President
R. C. STANLEY, JR. Vice-President
J. C. L. ALLEN Vice-President
E. J. WADE Vice-President-Mining
I. T. H. HAMILTON Secretary

DIRECTORS

J. C. L. ALLEN
P. A. ALLEN
I. T. H. HAMILTON
R. C. STANLEY, JR.
D. C. WEBSTER

MANAGERS

PAUL THOMSON — Manitouwadge Division
F. A. NABB — Macassa Division
A. G. WILSON — Milton Limestone Aggregates Division

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario

AUDITORS

THORNE RIDDELL & CO.
Toronto, Ontario

EXECUTIVE OFFICE

Suite 1900, 101 Richmond Street West, Toronto, Ontario

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Operating profit for 1976 was \$690,463 compared to \$1,835,665 in 1975. The net income for the year totalled \$1,496,694 or 19¢ per share versus \$2,803,131, or 36¢ per share in 1975.

MANITOUWADGE DIVISION

During 1976, 343,293 tons of ore were milled (941 tons per day), up from 327,355 tons (897 tons per day) in 1975. The average ore grade milled during the year was 0.56% copper, 3.67% zinc, 0.17% lead and 1.59 ounces of silver per ton.

The Net Smelter Return (less freight costs) in 1976 for all metals produced totalled \$6,422,838 or \$18.71 per ton compared to \$6,098,534 or \$18.63 per ton in 1975.

Operating expenses were \$6,786,502 (\$19.77 per ton) in 1976, up from \$5,219,014 (\$15.94 per ton) the previous year.

Ore reserves on December 31, 1976 (1975 figures are in brackets) stood at 759,448 tons (582,754 tons) grading 0.28% (0.47%) copper, 4.42% (3.91%) zinc and 1.47 (1.54) ounces of silver per ton.

During 1976 the Big Nama Creek crown pillar was completely extracted by open pit mining methods and an extensive surface and exploration program was undertaken in an attempt to locate another large ore body. The increase in reserves is due to extensions to known ore reserve blocks.

The completion of the open pit mining of the Big Nama Creek crown pillar rendered the operation uneconomic at the lower mining rate from Willecho itself. Accordingly, eight weeks notice of termination was given to employees on January 20, 1977 and the mine was placed on a salvage basis.

From July 22, 1957 to December 31, 1976, the Manitouwadge operation processed 8,667,236 tons of ore recovering 669,959,491 lbs of zinc, 144,498,575 lbs of copper, and 9,895,923 ounces of silver plus associated metals with a gross value of \$167,476,203.

MACASSA DIVISION — KIRKLAND LAKE, ONTARIO

During 1976 gross revenue totalled \$6,199,548 down from \$7,303,844 in 1975. Gold production increased 11.8% to 50,008 ounces compared to 44,750 ounces in 1975. Increased ore grades and tonnage throughput helped to offset in part the decline in value received for gold from \$162.26 per ounce in 1975 to \$122.89 per ounce in 1976.

Effective August 20, 1976, Upper Canada Resources Limited relinquished management of the Macassa operation. Your Company now owns and manages the operation.

	1976	1975	% change
Tons milled	92,244	88,008	+ 4.8%
Tons per day	252	241	+ 4.6%
Ounces gold recovered per ton	0.542	0.508	+ 6.7%
Mill recovery	95.65%	96.03%	— 0.4%
Ounces produced — Gold	50,008	44,750	+ 11.7%
— Silver	8,525	9,459	— 9.9%
Gross revenue	\$6,200,924	\$7,303,997	— 15.1%
Average prices per			
oz — Gold	\$122.89	\$162.28	— 24.3%
— Silver	\$4.32	\$4.45	— 2.9%
Total operating costs	\$5,902,895	\$6,114,123	— 3.5%
Operating cost per ounce of gold	\$ 118.64	\$137.42	— 13.7%
Operating profit	\$ 298,029	\$1,189,874	— 75 %
Operating profit per ounce of gold	\$ 5.96	\$ 26.59	— 77.6%

In the last quarter of 1976 mine development and exploration was accelerated and as a result the rate of development is back up to 1975 levels. Total development (drifts, cross-cuts and raises) totalled 4,850 feet compared to 7,494 feet in 1976. During the year 496 feet of ore averaging 0.67 ounces gold across 7.3 feet was located in drifting.

Ore reserves declined slightly to 270,530 tons averaging 0.561 ounces of gold per ton from 282,389 tons at 0.533 ounces of gold per ton in 1975.

Water pumping costs increased to \$178,288 in 1976 versus \$118,136 in 1975. The Macassa mine drains the Kirkland Lake camp. Early in 1977 a comprehensive training program for miners was established in conjunction with Canada Manpower.

Efforts will continue to be made to increase production to reduce unit costs.

MILTON LIMESTONE AGGREGATES DIVISION

This rock quarry, at Milton, Ontario, was struck on July 7, by members

of the United Cement, Lime & Gypsum Workers International Union. As of March 9, 1977 the strike was still not settled. The division showed a net profit of \$63,500 for the first six months of the year. As a result of the strike and the costs of maintaining the operation, the division had a net loss for the year of \$66,290 on sales of 391,355 tons of crushed rock before expenditures of \$51,120 on fixed assets.

Norlartic Division

Camflo Mines Limited will be advancing on the 2,700 level and expect to cross on to Norlartic during 1977. No work was done on the property during 1976.

Renabie Division

Rengold Mines Limited was placed in receivership during the first quarter of 1976 and the mine is closed. Your company continues to hold its 50% undivided interest in future net profits from the mine.

Bicroft Division

looking again this year
Steadily rising prices for uranium oxide have provided an incentive to once again undertake an evaluation of the prospects of this property. The evaluation is planned for early 1977.

Long Lac Mineral Exploration Limited, the 20% held exploration and development arm of the company, had an active year and a separate report is included of that company's activities.

The Directors take this opportunity of expressing their sincere appreciation to Mr. Paul Thomson, Manager of the Manitouwadge Division, Mr. F. A. Nabb, Manager of the Macassa Division, Mr. A. G. Wilson, Manager of the Milton Limestone Aggregates Division and to the staff and employees.

Respectfully submitted,

On behalf of the Board,

P. A. ALLEN,
President

Toronto, Ontario
March 9, 1977

LONG LAC MINERAL EXPLORATION LIMITED

1976 REPORT

The results of an accelerated, diversified and persistent exploration programme conducted during the past few years have contributed to making 1976 the most successful since incorporation in 1967. Total expenditures for property and/or company acquisitions amounted to \$1.1 million, three-quarters of which was directed toward property acquisition and diamond drilling in the Cadillac area of Northwestern Quebec.

As a result of our exploration philosophy in part and the mature stage of many of our exploration programmes, diamond drilling will be conducted on eight different properties during 1977. These programmes will involve the search for gold, gold-silver, uranium and copper-lead-zinc deposits.

As reported in late 1976 your company made a significant gold discovery on the Thompson Bousquet property located some three miles north west of Cadillac in Northwestern Quebec. Drilling has confirmed the presence of a new zone of mineralization in which four parallel and/or en echelon zones occur. The zones vary in width from 5.0' - 30.0' and to date the No. 3 zone, the most northerly, appears to have possible economic significance, however, further drilling will be required to evaluate the potential of all the zones.

Drill indicated geological reserves in the No. 3 zone down to 600' below surface are 458,000 tons with a grade of 0.30 ounces/ton. All high assays have been cut to 1.0 ounce and dilution has been estimated at 20%. This zone remains open to the west and to depth and drilling will be required in 1977 to further investigate this deposit.

During the latter part of 1976 the Thompson Bousquet/Lac Mineral agreement was restructured. In exchange for an increase in advance royalty payments from 5% to 10%, Thompson Bousquet has agreed to grant Lac a one-year extension to the time for election to place the property in production and has granted an increase in Lac's interest in net profit from the operation from 50% to 60%.

A significant acquisition was completed during the year when your company bought effective control of Silverstack Mines Ltd., Silverstack (as to 51%) and Soquem (as to 49%) control a large acreage of ground along strike from the Thompson Bousquet property. Drilling over the past few years has outlined approximately 2.8 million tons with a grade of 0.135 ounces/ton. Dilution has been calculated at 20% and all high assays cut to one ounce.

Soquem, the Province of Quebec's exploration arm, is the designate manager of the Silverstack-Soquem project, but they have indicated that they would be receptive to Long Lac Mineral Exploration Limited managing the next phase of the exploration work. This next phase will study the open pit potential of the deposit and check out some high priority anomalies. *grade 0.35*

Both the first and second phase of the Bijou option were completed enabling your company to earn 60% interest in the property. The Bijou property joins immediately to the south and along strike to the east of the Thompson Bousquet property. Diamond drilling has been conducted over a portion of the property with some narrow ore sections intersected.

Geological and geophysical work was conducted on three additional properties in the Thompson Bousquet-Silverstack-Soquem area: Hinse, Brawley and El Coco. The Hinse and El Coco properties will be drilled during 1977. The Brawley property was drilled with negative results.

An option was taken on a uranium property, owned by Silvermaque Mines, adjacent to the former uranium producer Stanleigh Mines at Elliot Lake. Mining was conducted along the Silvermaque-Stanleigh boundary and this information coupled with surface drilling has indicated a potential for some 2.0-3.0 million tons of approximately 1.8-2.0 lbs uranium per ton. In addition widely spaced drilling on the western section of the property has indicated the potential for further discovery of reef with a grade of 1.0-1.3 lbs per ton. To maintain our option Lac Mineral is committed to complete 10,000' of diamond drilling and will pay advance royalties of \$40,000 per annum. Drilling with two machines had commenced at year end.

Through a six-month research and field programme we have acquired 80 (H.C.) claims in south central British Columbia with encouraging indications of copper, gold, and uranium. This area has recently been highlighted as one of the most active in British Columbia. Follow-up mapping, trenching and geochemistry will be conducted this coming season.

Activities in the North West Territories were concentrated on securing our land position since we are in the last year of our permit. The staking of some 350 claims was conducted and during this period a minor amount of prospecting conducted; negotiations are continuing with major companies to find a joint-venture partner.

Our activities in Nevada, U.S.A., have resulted in the acquisition of a gold-silver property by staking and the optioning of a gold property from the Southern Pacific Land Company. Geological, geochemical and geophysical work has been completed on both properties and drilling should commence in the spring of 1977.

Further geological, geophysical and geochemical studies of the Conchita-Fatima area in Southern Spain have resulted in three areas of interest. A drill programme will commence in March, 1977. Previous reconnaissance drilling had indicated interesting copper-magnetite-gold and zinc-silver values. In spite of some political unrest, recent mining legislation makes Spain one of the most attractive areas for mineral exploration.

Your company continues to explore for oil and gas through Taurus Oil Ltd., a company managed by John Downing of Calgary, Alberta.

After January 1, 1977, Lac Mineral will be issuing shares to its shareholders for expenditures made for work done. On March 9, 1977 shares were issued to your company's shareholders for expenditures made which have been carried as amounts receivable from Lac Mineral by the shareholders on their financial statements up to December 31, 1976. The present position of the shareholdings is as follows:—

Shareholding company	Shares held	Advances to Lac Mineral
Little Long Lac Gold Mines Limited	45,483	254,836
Lake Shore Mines Limited	56,854	318,545
East Malartic Mines Limited	22,741	127,418
Malartic Gold Fields (Quebec) Limited	22,741	127,418
Wright-Hargreaves Mines Limited	22,741	127,418
Willroy Mines Limited	45,483	254,836
Lundor Mines Limited	11,370	63,709
	<u>227,413</u>	<u>\$ 1,274,180</u>

March 9, 1977

D. G. SHEEHAN
Exploration Manager

BALANCE SHEET AS

ASSETS

CURRENT ASSETS

	1976	1975
Cash and short term deposits (note 6(a))	\$ 8,584,110	\$ 5,826,986
Bullion, settlements receivable and concentrates in transit (note 2)	1,358,855	1,644,888
Marketable securities, at cost less allowance for decline in market value 1976, \$1,700,000; 1975, \$2,700,000 (quoted market value 1976, \$6,383,000; 1975, \$8,396,000)	6,364,687	8,404,891
Income taxes recoverable (note 6(a))	82,673	
Accounts, accrued interest and other receivables	1,400,111	903,141
Receivable from broker on security transactions	211,702	
Supplies and other assets, at cost less amounts written off (at cost in 1975)	1,245,065	1,243,538
	<u>19,247,203</u>	<u>18,023,444</u>

OTHER INVESTMENTS (note 3)	2,086,094	1,654,742
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FIXED ASSETS

Mineral and other properties (note 4)	2,279,855	2,282,122
Plant and equipment	14,176,909	14,582,930
	<u>16,456,764</u>	<u>16,865,052</u>
Less accumulated depreciation and depletion	11,781,068	11,909,573
	<u>4,675,696</u>	<u>4,955,479</u>

OTHER ASSETS

Preproduction, exploration and development expenditures deferred	69,174	54,346
Other items	29,995	55,659
	<u>99,169</u>	<u>110,005</u>
	<u>\$ 26,108,162</u>	<u>\$ 24,743,670</u>

Approved by the Board

R. C. STANLEY Jr., Director

I. T. HAMILTON, Director

AUDITOR

To the Shareholders of
Willroy Mines Limited

We have examined the balance sheet of Willroy Mines Limited as at December 31, 1976 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada
February 4, 1977

DECEMBER 31, 1976

LIABILITIES

CURRENT LIABILITIES

	1976	1975
Accounts payable and accrued liabilities	\$ 1,930,882	\$ 1,747,455
Income taxes payable (note 6(a))		262,450
Mining taxes payable	60,061	262,358
Provision for shutdown expenses (note 9)	250,000	
Payments received on purchase of dwellings under agreements of sale	49,338	162,820
	<u>2,290,281</u>	<u>2,435,083</u>
DEFERRED INCOME TAXES	<u>135,000</u>	<u>135,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)

Authorized — 10,000,000 shares without par value		
Issued — 7,704,392 shares (1975, 7,692,392 shares)	7,008,460	6,995,860
CONTRIBUTED SURPLUS	847,832	847,832
RETAINED EARNINGS	15,826,589	14,329,895
	<u>23,682,881</u>	<u>22,173,587</u>

\$26,108,162 \$24,743,670

Contingent liabilities (note 6)

REPORT

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1976

	1976	1975
Production revenue	\$ 14,237,830	\$ 15,831,313
Operating expenses		
Production expenses	12,143,316	12,612,710
Marketing expenses	986,396	842,029
Administrative and corporate expenses	342,319	293,909
Ontario mining tax	75,336	247,000
	<u>13,547,367</u>	<u>13,995,648</u>
Operating profit before the undernoted items	690,463	1,835,665
Depreciation and depletion	403,880	560,864
Outside exploration	118,265	243,157
	<u>522,145</u>	<u>804,021</u>
Income before the undernoted items	<u>168,318</u>	<u>1,031,644</u>
Other income		
Investment income	966,339	794,549
Sundry	44,938	2,150
Loss on sale of securities	(284,840)	(77,659)
Reduction in allowance for decline in market value of marketable securities	1,000,000	1,650,000
	<u>1,726,437</u>	<u>2,369,040</u>
	<u>1,894,755</u>	<u>3,400,684</u>
Income taxes		
Current	301,162	500,000
Deferred	110,000	135,000
	<u>411,162</u>	<u>635,000</u>
Income before extraordinary items	<u>1,483,593</u>	<u>2,765,684</u>
Extraordinary items		
Provision for shutdown expenses (net of deferred income taxes of \$110,000) (note 9)	(140,000)	
Gain on sale of fixed assets	156,896	41,242
Provision for litigation (note 6(b))	(3,795)	(3,795)
	<u>13,101</u>	<u>37,447</u>
NET INCOME (note 6(a))	<u>1,496,694</u>	<u>2,803,131</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>14,329,895</u>	<u>12,103,393</u>
	<u>15,826,589</u>	<u>14,906,524</u>
Dividends		576,629
RETAINED EARNINGS AT END OF YEAR	<u>\$ 15,826,589</u>	<u>\$ 14,329,895</u>
EARNINGS PER SHARE		
Income before extraordinary items	<u>19¢</u>	<u>36¢</u>
Net income	<u>19¢</u>	<u>36¢</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1976

	1976	1975
WORKING CAPITAL DERIVED FROM		
Operations	\$ 1,730,328	\$ 2,961,237
Proceeds on sale of shares in other companies	26,439	600,000
Issue of capital stock	12,600	25,610
Proceeds on sale of fixed assets	203,885	57,316
Other items	10,836	
	<u>1,984,088</u>	<u>3,644,163</u>
WORKING CAPITAL APPLIED TO		
Re-classification of marketable security as other investment	315,775	352,142
Investment in other companies		47,953
Purchase of fixed assets	171,086	349,044
Provision for litigation	3,795	3,795
Advances to associated company	124,871	11,583
Dividends paid		576,629
Other items		33,929
	<u>615,527</u>	<u>1,375,075</u>
INCREASE IN WORKING CAPITAL	1,368,561	2,269,088
WORKING CAPITAL AT BEGINNING OF YEAR	15,588,361	13,319,273
WORKING CAPITAL AT END OF YEAR	<u>\$ 16,956,922</u>	<u>\$15,588,361</u>

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1976

1. ACCOUNTING POLICIES

(a) Bullion, settlements receivable and concentrates in transit

Bullion in transit is valued at amounts realized subsequent to year end. Settlements receivable and concentrates in transit are valued using the current market price at the date of shipment, subsequently adjusted for interim payments and any major market fluctuation, until such time as final payment has been received for each specific shipment.

(b) Marketable securities

Marketable securities are recorded at cost less an allowance for decline in market value which is adjusted annually at each year end.

(c) Other investments

Investments in listed associated companies are recorded at cost. Investments in other associated companies are recorded at cost reduced by any permanent impairment.

Other investments are those which the company considers to be long term in nature. They are recorded at cost reduced by any permanent impairment.

(d) Fixed assets

(i) Mining properties

Mineral properties are recorded at cost. When the properties are considered to be permanently uneconomical they are written off.

(ii) Plant and equipment

All plant and equipment are stated at cost. Depreciation is provided on both the straight-line and declining balance bases at rates from 10% to 25% annually.

During 1976, the operations of the company's sand and gravel division were halted due to a strike. During the period of the strike, depreciation of approximately \$120,000 was not recorded on equipment that was not in use.

(e) Exploration and development expenditures

Exploration and development expenditures related to producing mining operations are written off as incurred. Stripping expenditures related to the sand and gravel operations are deferred and written off based on current production related to reserves. All outside exploration is written off as incurred.

(f) Income taxes

Deferred income taxes arise from claiming depreciation and other items for tax purposes in amounts differing from amounts recorded in the accounts.

2. BULLION, SETTLEMENTS RECEIVABLE AND CONCENTRATES IN TRANSIT

At December 31, 1976, settlements receivable and concentrates in transit have been valued using the following average per unit prices:

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED DECEMBER 31, 1976

Silver — \$3.20 per ounce
Copper — 60¢ per pound
Zinc — 35¢ per pound

3. OTHER INVESTMENTS

	1976	1975
Associated companies		
Listed shares (quoted market value 1976, \$92,000; 1975, \$98,000)	\$ 131,661	\$ 131,661
Other shares	25,002	25,002
Advances	254,836	129,965
Other shares		
Listed (quoted market value 1976, \$807,000; 1975, \$548,000)	1,221,833	915,354
Other	452,762	452,760
	<u>\$2,086,094</u>	<u>\$1,654,742</u>

4. MINERAL AND OTHER PROPERTIES

The company granted to another mining company the right to do exploration and development work on its mining claims in the Renabie area and to bring the property into commercial production. The cash generated from production will be applied against production costs and repayment of costs incurred by the other mining company on the property. After the repayment of these expenditures Willroy will get 50% of the cash flow as defined in the agreement.

Although the agreement is still in effect, the optionor ceased operations on the property in 1976.

5. CAPITAL STOCK

During the year ended December 31, 1976, the company issued 12,000 shares of its capital stock under an employees' stock option plan for a cash consideration of \$12,600.

6. CONTINGENT LIABILITIES

(a) The company has received income tax re-assessments for the years 1969 and 1970 totalling \$308,602 including interest. The company does not agree with these re-assessments and accordingly has filed notices of objection with respect thereto. Certain short term deposits have been assigned to the tax authorities as security for the amounts owing on the re-assessments pending settlement of the notices of objection. No provision has been made in the accounts for any liability that may result therefrom.

If the company is unsuccessful in its appeal, additional capital cost allowance will be claimed to eliminate the re-assessed taxable income. This would result in a reduction of capital cost allowance and deferred expenditures available for subsequent years and a corresponding increase in income taxes of \$450,000 in 1974, \$15,000 in 1975 and \$10,000 in 1976.

(b) An action by Milton Brick Co. Limited has been heard in the Supreme Court of Ontario essentially for possession of certain lands leased by it to Milton Quarries Limited and for a declaration that certain royalties and damages are due to it by Milton Quarries. In 1974 a judgment was rendered against the company in the amount of \$63,250 plus \$23,076 accrued

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED DECEMBER 31, 1976

interest. The company has already provided \$93,916 for this contingency and has appealed this judgment.

- (c) Fixed assets totalling approximately \$250,000 were acquired during the period the management agreement with Upper Canada Resources Limited was in effect. Under the terms of this agreement, if, as and when these assets are sold one-half of the proceeds of disposal are to be distributed to Upper Canada Resources Limited.
- (d) The company expects to incur certain environmental control expenses related to mining operations. Management estimates that these expenses to be incurred over the next five years could be \$1,000,000. These costs will be expensed as incurred and no provision has been made in the 1976 financial statements for them.

7. MANAGEMENT AGREEMENT

The management agreement with Upper Canada Resources Limited dated October 19, 1970 was terminated August 20, 1976.

8. ANTI-INFLATION LEGISLATION

The company is subject to the regulations of the Anti-Inflation Act (Canada) which became effective October 14, 1975. This Act imposes restrictions on revenues, compensation to employees and payment of dividends to shareholders. In the opinion of management, the Act will not have a material effect, if any, on the net income of the company for the year ended December 31, 1976. Under these regulations, the maximum dividend per share that the company may pay or declare in the twelve months ending October 13, 1977 is 9¢ per share.

9. OPERATIONS

Management has announced that it expects to discontinue operations at the company's Manitouwadge division in 1977. Estimated shutdown expenses for this division of \$250,000 have been accrued as at December 31, 1976.

Operations at the company's Milton Limestone Aggregates division have been shutdown since July 6, 1976 due to a strike. A settlement has not been reached as of February 4, 1977.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration for the year of directors and senior officers as defined by The Business Corporations Act was as follows:

	1976	1975
Directors and officers	\$ 58,146	\$ 55,875
Mine employees	125,560	101,160
	<u>\$ 183,706</u>	<u>\$ 157,035</u>

1st Q

Man 160,000

Marcasa 360,000

522,000

(102,000)

estimate - min

openly profits

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